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Statement of Rep. Christopher Shays

June 21, 2005

As successor to the United Nation's Oil-for-Food Program, the Development Fund for Iraq (DFI) inherited more than money. The DFI was also bequeathed the mission to maintain essential food and fuel flows, and to launch a nationwide reconstruction program, despite a looted public infrastructure, a dysfunctional civil government and a savage insurgency. Nevertheless, the international Coalition willingly took on the U.N. Security Council mandate to administer the fund "in a transparent manner for the economic reconstruction and repair of Iraq's infrastructure ... and for other purposes benefiting the people of Iraq."

This hearing builds on the Government Reform Committee's assessment of Iraq reconstruction contracting and financial management, and asks specifically how one member of the Coalition – the United States – met that fiduciary commitment to transparency.

Last year the full committee held four hearings on contract management challenges in Iraq. They examined in detail the complex, multi-step processes and layered safeguards applied to cost-plus-fee contracts. Those audit procedures and fiscal protections are still at work finalizing actual payments on the sole-source Reconstruct Iraqi Oil (RIO) task orders and other contracts. Yet today some may feel the need to retrace those steps, or prematurely label pending contract amounts as "overcharges," in a tired and transparent effort to ensnare the Administration, the Vice President, and his former employer Halliburton in a breathless web of circumstance and supposition.

In truth, there is no need to exaggerate or jump to conclusions about problems in Iraq. Security conditions, cultural idiosyncrasies and an all-cash economy there pose enormous challenges to the conduct of public business as we know it here. The Inspector General and the U.N. International Advisory and Monitoring Board (IAMB) have raised legitimate questions about operation of the DFI. Those issues merit our serious attention today.

But serious scrutiny demands precision. Words like “overcharge” and “fraud” have exact legal meanings in this context. They should not be used injudiciously or for sensational effect. Facts and opinions are not interchangeable. We may well disagree on their ultimate meaning and impact, but our purpose here today is to first find facts.

It is a fact that more than eight billion dollars in cash was distributed to Iraqi ministries between April 2003 and June 2004. It is a fact that the Iraqis decided how to spend that money. It is fact that people were paid, projects were built and things were purchased with that cash. It is a fact the Inspector General faulted the Coalition Provisional Authority (CPA) for a failure to implement consistent oversight and adequate controls over those expenditures. But, as the Inspector General will testify, it is a “misunderstanding” to conclude the absence of accounting controls alone means some or all the funds at issue were misused or stolen

It is also a fact the Department of Defense (DOD) provided only heavily redacted copies of Defense Contract Audit Agency (DCAA) reports on DFI spending to the UN oversight body, the IAMB. The redactions violated the commitment to transparency and regretfully make it appear DOD has something to hide. This undermines our international standing and harms our efforts in Iraq.

That was a self-inflicted wound, a needless failure to meet transparency obligations. UN Security Council Resolution 1483 committed the United States to an extraordinary level of disclosure for DFI transactions. But it appears that commitment had little impact on the Pentagon’s practice of deferring completely to the contractor’s absurdly expansive view of what constitutes “proprietary information” that must be shielded from view.

After repeated requests to DOD, and lengthy delays getting a response, the IAMB was justifiably dissatisfied with redacted DCAA audit reports that hid almost every meaningful number or reference to questioned and unsupported contract costs – the very matters of most concern to them. The plundering of the Oil-for-Food Program was hidden by a suffocating lack of transparency at the UN. The world promised the Development Fund for Iraq would be different, that Iraqi money would be spent solely for the benefit of the Iraqi people.

We convene this morning on their behalf. It's their money we're talking about. They deserve a fair accounting of our stewardship.

After eight trips to Iraq, it's clear to me we've made progress and we've made mistakes. Our burden as well-intentioned liberators is this: The progress belongs to the people of Iraq. The mistakes are ours to remedy. Our management of the DFI has much to teach us about both.

Our witnesses will help provide essential substance and needed context to our discussion of the Development Fund for Iraq. We appreciate their time and expertise, and we look forward to their testimony.